

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE THABAZIMBI LOCAL MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Thabazimbi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act of South Africa, 2011 (Act No. 06 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash flow statement

4. SA Standards of GRAP, 2, *Cash flow statements* requires presentation of a cash flow statement, summarising the entity's operating, investing and financing activities. The following differences were noted as per my recalculations and the amount disclosed in the cash flow statement for the current year and comparative

Description	2012		
	Auditors	Auditee	Difference
Rates	14 673 312	14 854 421	(181 109)
Service charges	96 956 953	97 210 065	(253 112)
Grants	91 472 014	93 358 437	(1 888 423)
Other receipts	5 342 275	5 870 245	(527 970)
Employee costs	(72 406 192)	(72 406 090)	(102)
Suppliers	(109 022 630)	(113 806 871)	4 784 241
Proceeds from sale of PPE	-	180 035	(180 035)
Proceeds from sale of Financial assets	-	310 335	(310 335)
Total	27 015 732	25 570 577	1 445 155

Description	2011		
	Auditors	Auditee	Difference
Service charges	72 953 175	75 598 183	(2 645 008)
Grants	84 438 109	86 481 097	(2 042 988)
Suppliers	(84 524 358)	(111 398 044)	26 873 686
Purchase of PPE	(27 020 422)	(4 237 786)	(22 782 636)
Proceeds from sale of PPE	715 715	118 769	596 946
Total	46 562 219	46 562 219	-

The entity did not reconcile these differences. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the cash flow statement presented in the financial statements.

Commitments

5. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R3 753 341 (2011:R3 407 123) as stated in note 36 to the financial statements.

Financial statements and general ledger

6. Differences were noted between the financial statements and the general ledger. The municipality did not reconcile these differences between the financial statements and the underlying accounting records. The impact on the balances is reflected in the table below. I therefore could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

Description	Amount per financial statements (R)	Amount per general ledger (R)	Understatement/ (Overstatement) (R)
Basic salary	37 342 318	37 686 08	(343 790)
Bonus	2 785 144	2 760 144	25 000
UIF	388 541	360 074	28 467
Decrease in leave provision	(769 782)	(1 571 466)	801 684
Allowances	4 399 346	5 015 821	(616 475)
Overtime	4 035 690	3 121 971	913 719
Depreciation and amortisation expenses	19 890 593	28 106 321	(8 215 728)
Provision for landfill sites	41 737	530 296	(488 559)
Long service awards	1 376 851	1 601 197	(224 346)
13th cheque bonus	3 267 776	3 210 578	57 198
Stores	744 446	322 946	421 500
Community assets	2 506 520	-	2 506 520
Infrastructure assets – opening balance	1 473 925 273	1 299 933 443	173 991 830
Community assets – opening balance	19 597 263	35 341 107	(15 743 844)
Other assets – opening balance	33 891 428	65 255 869	(31 364 441)
Infrastructure building – opening balance	-	46 301 000	(46 301 000)

Restatement of comparative figures

7. Corresponding figures for the following accounts have been restated as indicated in the table below in order to address prior year misstatements. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy for the corresponding figures of the accounts. Furthermore as per the requirements of SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, the municipality should disclose a note relating to correction of prior period errors, however the municipality has not disclosed this in the annual financial statements.

Description	2012 Financial comparative figures (R)	2011 Financial statement closing balance (R)	Restatement amount (R)
Trade payables	50 343 660	55 644 201	(5 300 541)
Retention creditors	-	3 179 894	(3 179 894)
Surety	-	48 333	(48,333)
Deposits received	2 859 049	3 104 524	(245 475)
Depreciation and amortisation expenses	19 755 367	-	19 755 367
General expenses	31 974 338	32 043 437	(69 099)

Irregular expenditure

8. The municipality could not provide tender files and other supporting documents for contracts awarded amounting to R73 433 392. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that contracts were awarded in accordance with the supply chain management regulations. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure as disclosed in note 44 to the financial statements

Property, plant and equipment

9. I was unable to obtain sufficient appropriate audit evidence for the following differences noted between the underlying records, trial balance and the financial statements

Description	Difference between fixed asset register and financial statements R
Comparative figures (note 5)	197 050 041
Additions (note 5)	3 873 657
Depreciation (note 30)	2 540 952

The municipality could not provide an explanation or supporting documentation for the differences noted above. Consequently I was unable to determine whether any adjustment to the property, plant and equipment in the financial statements was necessary.

10. The municipality could not provide supporting documents for property, plant and equipment as disclosed in note 5 to the annual financial statements. There was no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that property, plant and equipment were recorded correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of property, plant and equipment of R1 553 287 926 as per the statement of financial position.
11. In terms of the SA Standards of GRAP 17, *Property, Plant and Equipment*, the depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The municipality did not accurately calculate the depreciation on property, plant and equipment for the current year. I have recalculated the depreciation for the current year and a material misstatement was identified. Consequently, I could not verify the accuracy of depreciation for the current year as disclosed in note 30 to the financial statements.
12. The municipality could not provide supporting documents for work in progress as disclosed in the note 5 to the annual financial statements. I was unable to confirm the amount of R23 361 143 disclosed in the financial statements by alternative means. Consequently I was unable to determine whether any adjustments to the work in progress balance of R23 361 143 in the financial statements were necessary.
13. The municipality did not review the useful lives of property, plant and equipment at each reporting date in accordance with the SA Standards of GRAP 17, *Property, Plant and Equipment*. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the carrying value of property, plant and equipment and the corresponding effect on accumulated surplus in terms of SA Standards of GRAP 3, *Accounting Policies, Change in Accounting Estimates and Errors* as disclosed in the statement of financial position could not be determined.

Payables

14. The municipality could not provide contracts relating to projects that were in progress during the year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that retentions were in accordance with the contracts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, rights and obligation and completeness of retention payables of R3 702 556 as disclosed in note 17 to the financial statements.

Provisions

15. In terms of the SA Standards of GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*, the amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The municipality has incorrectly calculated the provision for leave pay for the current year due to incorrect capturing of leave transactions. Consequently, I was unable to confirm the valuation of the leave provision as disclosed in note 16 to the financial statements.
16. I was unable to obtain sufficient appropriate audit evidence for the classification of provision into short term and long term portion stated at R19 281 318 in note 16 to the financial statement. The municipality could not provide supporting documents to confirm the correctness of classification. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the provisions were recorded correctly. Consequently I was unable to determine whether any adjustment relating to the provisions in the financial statements was necessary.

Revenue

17. There was no system of control over revenue on which I could rely for the purpose of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that all revenue was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, occurrence and completeness of revenue recognised at R123 474 337 included total revenue as disclosed in the statement of financial performance.
18. The municipality did not use National Energy Regulator of South Africa (NERSA) approved tariff rates for billing the electricity consumers. I have recalculated the revenue (service charges: electricity) and noted a difference of R6 283 813. Consequently revenue as disclosed in note 22 to the financial statements is overstated by R6 283 813

Value Added Tax (VAT)

19. The municipality did not submit supporting documents for the reconciliation between the amount in the annual financial statements and the VAT statements received from the South African Revenue Services. There were no satisfactory procedures that I could perform to obtain reasonable assurance that VAT was correctly accounted for. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of the VAT payable balance of R2 120 740.

Prior period errors

20. The municipality did not disclose the prior period errors in accordance with the SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The municipality's records did not permit the application of alternative audit procedures. There were no satisfactory procedures that I could perform to obtain reasonable assurance that all prior period errors were disclosed in the financial statements. Consequently I was unable to determine whether any further adjustments were necessary to the amount of R 2 030 692 715 disclosed for prior period items in note 38 to the financial statements.

Disclaimer of opinion

21. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

22. As disclosed in note 45 to the financial statements, material distribution losses to the amount of R10 218 240 were incurred as a result of differences between the water inventory on hand at year end and the inventory balance per the accounting records.

Restatement of corresponding figures

23. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the municipality at, and for the year ended 30 June 2011.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

24. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

25. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
26. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported

performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

27. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete)

The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

28. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No.32 of 2000)(MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information. There was no link between the planned and actual targets reported in the annual performance report and a lack of review by the accounting officer.

Consistency

Reported objectives not consistent with the planned objectives

29. The MSA section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 100% of all planned objectives specified in the integrated development plan for the year under review. This was due to lack of monitoring of the completeness of reporting documents by management.

Measurability

Performance targets not specific

30. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 86% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI*.

Performance targets not measurable

31. The *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 86% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI*.

Performance targets not time bound

32. The *FMPPi* requires that the time period or deadline for delivery be specified. A total of 86% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPi* but chose not to apply the principles contained in the *FMPPi*.

Performance indicators not well defined

33. The *FMPPi* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but chose not to apply the principles contained in the *FMPPi*.

Performance Indicators not verifiable

34. The *FMPPi* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 36% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the *FMPPi* but chose not to apply the principles contained in the *FMPPi*.

Relevance

Performance indicators not relevant

35. The *FMPPi* requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 100% of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the annual integrated development plan. There were no indicators or targets included in the integrated development plan or service delivery budget implementation plan.

Reliability of information

Validity

36. The *FMPPi* requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 91% of objectives. This was due to limitations placed on the scope of my work due to the institution's records not permitting the application of alternative audit procedures.

Accuracy

37. The *FMPP* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 91% of objectives. This was due to limitations placed on the scope of my work by the absence of the institution's records not permitting the application of alternative audit procedures.

Completeness

38. The *FMPP* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 91% of objectives. This was due to limitations placed on the scope of my work by the absence of the institution's records not permitting the application of alternative audit procedures.

Compliance with laws and regulations

39. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

40. The municipality did not establish a performance management system that was in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the MSA.
41. The municipality did not
- set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan ,
 - set measurable performance targets, with regard to each of those development priorities and objectives and against the key performance indicators and targets set
 - measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set
 - take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

Budgets

42. Expenditure was incurred that was not budgeted for and in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

43. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.

Annual financial statements, performance and annual report

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.
45. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
46. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
47. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
48. The annual performance report for the year under review does not include a comparison of the performance with set targets as required by section 46(1)(b) of the MSA.
49. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(c) of the MSA.

Audit committees

50. The audit committee did not advise the council and political office bearers on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
51. The audit committee did not advise the council and political office bearers on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
52. The audit committee did not advise the council and political office bearers on matters relating to compliance with the MFMA and DoRA as required by section 166(2)(a)(vii) of the MFMA.
53. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

54. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
55. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Internal audit

56. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).
57. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

58. Goods and services with a transaction value of below R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
59. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the documents were not available for verification since they were in the custody of special investigations unit.

Expenditure management

60. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
61. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
62. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants

63. Unspent conditional grant funds not committed to identifiable projects were not surrendered to the National Revenue Fund, as required by section 20(1) of the DoRA.

64. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
65. The municipality did not submit project implementation plans to the national department (CoGHSTA), as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
66. Projects were not implemented in line with the details contained in the Integrated Development Plan, as required by the *Division of Revenue Grant Framework, Gazette No.34280*.

Revenue management

67. A tariff policy on the levying of fees for municipal services provided by the municipality was not implemented, as required by section 74(1) of the MSA and section 62(1)(f)(i) of MFMA.
68. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.

Asset management

69. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets and liabilities of the municipality as required by section 63(2)(a) of the MFMA.
70. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

Internal Control

71. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

72. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
73. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources are in place.

Financial and performance management

74. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.

75. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer
76. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

Governance

77. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.

Auditor-General.

Polokwane
30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence